Revenue Committee

Meeting Summary

March 16, 1999

APPROVED (4/20/99)

Committee members present: Skip Rowley, Chair, Bob Helsell, Vice-Chair, Roger Dormaier, Jim Fitzgerald, Neil Peterson, Mike Roberts, Commissioner Judy Wilson

Committee members not present: Councilmember Dave Earling, Governor Booth Gardner, Representative Ed Murray, Larry Pursley, Senator George Sellar

The Revenue Committee convened at 8:35 am at the SeaTac Holiday Inn. Chairman Skip Rowley welcomed new Committee member Jim Fitzgerald from the Amalgamated Transit Union in Spokane.

A motion to approve the February meeting summary was made by Mike Roberts and seconded by Bob Helsell. A correction was noted on page 2, first paragraph, last sentence: it is mitigation fee money, not state money, that must be returned if development is not completed within 6 years. The meeting summary was adopted as amended.

The Chair handed out a draft set of Committee benchmarks for consideration. The proposed benchmarks were: adequacy, equity, simplification and flexibility. He reminded members of the presentation the previous month on the characteristics of a good tax system and asked whether Committee members had felt the speaker was implying the need for a state income tax. It was commented that perhaps the speaker had been expressing a concern about continuing to narrow the tax base in the general fund since the MVET, a high growth tax, had been removed to transportation, and property taxes were being cut back. That left the sales tax which does not track the economy very well. Another member noted that the presentation had really been somewhat philosophical in nature and not that applicable to transportation. It was also offered that our taxes are not equitable and that because Washington relies so heavily on the sales tax, it leads people to buy elsewhere.

It was noted that a statewide initiative to scale back the MVET was being circulated and, if it were successful, would remove $1.2 billion in transportation funds. In Virginia a candidate won by proposing to reduce the MVET, providing a lesson that there is public dissatisfaction to be sensitive to. Another member suggested that Committee members be aware of taxes that require a single large check to be written (e.g., the MVET) vs. “a thousand tiny cuts” such as the sales tax and the gas tax.

The Chairman asked whether anyone wished to make any public comments. No members of the public offered comments.

Presentation on State Funding Accounts

The Chair introduced Helga Morgenstern, the chief financial officer of the State Department of Transportation. Ms. Morgenstern began her presentation on dedicated funding by describing the current legislative effort to eliminate four accounts and consolidate four more. She said this bill, if it passes, would shrink the current 44 account list. Nationally, the history of earmarking funds has declined from 51% in 1954 to 24% in 1993. In Washington, we earmarked 35% of funds then, saw a decline in earmarking to 26% in the eighties and then an increase again to 30% in 1993. The gas tax has always been earmarked.

Arguments for earmarking include guaranteeing a minimal level of funding, providing a direct link between a user fee and a service, achieving predictability and stability of funding. Con arguments include that there is no guarantee of adequate support, and that earmarking may not allow the most efficient use of funds and may inhibit flexibility.

Ms. Morgenstern went on to raise ten issues for Committee consideration:

- **Support for the "user fee" concept**. Current user fees include the gas tax, license fees, aircraft fuel tax and farebox revenues.
- **Competition between activities within dedicated accounts.** Should small programs (like the highway heritage program as an example) have dedicated funding if there are insufficient funds for basic infrastructure?
- **Absorbing dedicated activities into other programs**. Might some dedicated activities be operated under other programs, for example county arterial preservation by counties?
- **Prioritization of dissimilar activities**. Could we distinguish between the "have-to-haves" and the "nice-to-haves?" Currently the UW is developing a model that allows trade-offs between modes.
- **Allowing earmarked programs to expire**. Many earmarked programs are very small and may involve a user group that has voluntarily imposed a fee on itself to receive a specific service, for example RV owners. The largest impact programs at about $20 million each are high capacity planning (HCT) and the small city program. An audience member noted that the HCT program is used for commute trip reduction programs and for HOV planning. It was asked whether there might not be a reluctance to allow local governments to absorb programs if there is no certainty they won't supplant the funds for other purposes. The answer was given that sometimes local governments feel they are in the best position to evaluate competing needs.
- **The use of "advance" accounts**. Advance accounts are used for early (and presumably cheaper) investment in activities known to be in the future. Often this makes good business sense.

- **The use of revolving accounts**. These accounts recycle funds after their use for a specific project.
- **The use of dedicated gas tax grant programs.** These are the programs of the County Road Administration Board and the Transportation Improvement Board.
- **Competition across jurisdictional boundaries**. This occurs in grant programs where jurisdictions have voluntarily agreed to allocate some of their funds to “have-not” jurisdictions for worthy projects. Another approach to achieving this end could be to use an equalization logic in which “have-nots” are simply allocated funds.
- **Shift funding focus from jurisdictions to functions**. Examples could include a defined level of preservation and maintenance or a certain level of response to growth-related needs.

In conclusion, Ms. Morgenstern outlined potential next steps for the Committee such as defining preferred outcomes, identifying where flexibility is most needed and what hurdles would need to be overcome. Asked what her own top candidates might be, she said she liked the idea of considering the federal approach of directing funds to broad categories that are cross-jurisdictional, for example completion of an HOV lane system.

Presentation on Total System Costs and the Effects of the Current Finance Structure

Chairman Rowley welcomed King Cushman, Transportation Planning Director of the Puget Sound Regional Council. With him were Ralph Cipriani and Matt Kitchen. Mr. Cushman began by outlining broad trends we are facing, such as growing population and employment, failure to build new road supply, lack of system revenues and a frustrated public. The goals of the PSRC’s study are to optimize regional investment, improve efficiency, improve funding predictability, hold down costs and respect diverse needs. This flows out of a federal requirement that MPOs engage in least-cost planning, similar to the energy industry.

Understanding total system costs involved looking at three kinds of costs: direct private costs (auto-related, freight, transit); direct public costs (roads, transit, ferries) and indirect public and private costs (congestion, pollution and water impacts). The study found that in 1995 in the Puget Sound region, $21 billion was the total cost of transportation, of which 62% was attributable to private auto costs, 24% was private freight costs and 8% was direct public costs. The mode split for auto vs. transit was 97% share of direct expenditures on auto and 97% share of travel by auto, compared to 3% share of direct expenditures on transit and 3% share of travel by transit.

Total direct public expenditures were $1.74 billion on all modes and including federal, state and local funds. However, only local government revenues have kept pace with population growth, while dedicated gas tax, other state revenues and federal revenues have grown only slightly.

Three main findings of the study were that:

- Public investments in general are undercapitalized. While vehicle miles traveled (VMT) per capita had increased, gas tax per capita has declined. Additionally, the more local governments comply with GMA by increasing incorporated areas, the less revenue they get as every incorporation leads each city to receive a smaller share of a constant revenue source.
- The transportation finance system fails to support the region's transportation goals. The system encourages driving by creating a disconnect between use of the system and paying for it. Only 31% of public revenues relate to system use.
- The system separates transportation planning, programming and revenue generation. The regional system is built one jurisdiction at a time, with each jurisdiction and mode for itself.

The challenges of this situation are communicating the complex realities to the public and developing options for change. A committee member asked, what might some of the options be? Possible changes might include incentives for people to own fewer cars, e.g., a higher registration fee for each additional car in a family; a VMT charge determined by odometer readings; car sharing programs; development density incentives such as a restructuring of the property tax. For example, the PSRC also intends to look at European models where less money is earmarked and spending is modally blind and where subsidies for agricultural land incentivize urban development.

A member noted that citizens are unwilling to accept additional transit taxes as long as they perceive that buses are traveling empty. Another member said that people will accept change only if flexibility and accessibility are available. Another factor noted was that travel patterns show that only 20% of VMT are work trips while 80% are non-work. More compact development with a built-out road system is needed. Portland, for example, has 400 intersections per square mile while Irvine, CA, has only 15.

In response to a question about the usefulness of multimodal and multijurisdictional funding sources, Mr. Cushman replied that these are a very small proportion of the total, about $50 million out of the total $1.7 billion in public spending. An audience member commented that the federal model at least allows some jurisdictions some flexibility; shifting state dollars toward that model would be helpful. Another person offered that multimodal funds such as TIA have created many partnerships that have been beneficial in addressing fragmentation. Freight mobility programs have also begun using this model.

With no more business to come before the Committee, the meeting was adjourned at 11:45 am.